

P00C
Business Regulation
Department of Labor, Licensing, and Regulation

Operating Budget Data

(\$ in Thousands)

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$8,276	\$8,944	\$8,805	-\$139	-1.5%
Contingent & Back of Bill Reductions	0	0	-11	-11	
Adjusted General Fund	\$8,276	\$8,944	\$8,794	-\$149	-1.7%
Special Fund	50,897	104,003	114,299	10,296	9.9%
Contingent & Back of Bill Reductions	0	0	-27	-27	
Adjusted Special Fund	\$50,897	\$104,003	\$114,273	\$10,270	9.9%
Federal Fund	5,048	5,010	5,016	6	0.1%
Contingent & Back of Bill Reductions	0	0	-6	-6	
Adjusted Federal Fund	\$5,048	\$5,010	\$5,009	-\$1	0.0%
Reimbursable Fund	1,367	1,395	1,500	105	7.5%
Adjusted Reimbursable Fund	\$1,367	\$1,395	\$1,500	\$105	7.5%
Adjusted Grand Total	\$65,587	\$119,352	\$129,576	\$10,225	8.6%

- The fiscal 2014 allowance increases by approximately \$10.2 million over the fiscal 2013 working appropriation. The vast majority of this increase relates to the increase in video lottery terminal (VLT) special funds for horse racing purse enhancements and VLT local impact aid.
- The fiscal 2014 budget bill includes a back of the bill reduction to health insurance expenses. The business regulation units' share of this reduction is \$43,762 across all funds. Reimbursable funds are increasing in the allowance due to slightly higher overhead costs under the Division of Occupational and Professional Licensing (professional boards reimburse the division for such costs).

Personnel Data

	<u>FY 12 Actual</u>	<u>FY 13 Working</u>	<u>FY 14 Allowance</u>	<u>FY 13-14 Change</u>
Regular Positions	356.70	356.10	356.10	0.00
Contractual FTEs	<u>34.88</u>	<u>41.31</u>	<u>46.10</u>	<u>4.79</u>
Total Personnel	391.58	397.41	402.20	4.79

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	14.07	3.95%
Positions and Percentage Vacant as of 12/31/12	43.50	12.22%

- Regular positions remain constant in the fiscal 2014 allowance; however, contractual full-time equivalents increase under the Division of Financial Regulation and the Division of Racing.
- The business regulation units of the department have vacancies well over what is required to meet turnover. Most vacancies are within the Division of Financial Regulation and the Safety Inspection Unit – two programs that have had historical difficulty in attracting and retaining staff.

Analysis in Brief

Major Trends

Mixed Efficiency Trends Under Division of Financial Regulation: The Division of Financial Regulation strives to protect financial services customers, ensure appropriate licensing, and maintain soundness in the State's financial services industry. Much progress has been made by the division to address the fallout of the recent mortgage crisis. However, the attention to this effort may have led to a decline in efficiency in the regulation of other financial entities.

The Effect of Mediation on Complaint Resolution: The Division of Occupational and Professional Licensing has made an effort to significantly increase the number of complaints that are resolved using alternative dispute resolution in order to avoid a lengthy formal hearing process. However, the Managing for Results data shows that the positive effect of the increased reliance on mediation has reached a plateau.

Issues

National Mortgage Settlement; Fraud Investigations: In February 2012, a significant national settlement was announced between 49 states and the District of Columbia and the nation's five largest mortgage servicers. The settlement included the establishment of new servicing standards and \$957 million in monetary relief to Maryland. The department received a small portion of those funds for fraud prevention and investigation measures. **The Department of Legislative services (DLS) recommends that the department brief the budget committees on the National Mortgage Settlement, especially the department's role in the process and how it will use the additional funds. Further, the department should also discuss how it will address the termination of funds after fiscal 2015.**

Department Responds to Sunset Review of Division of Labor and Industry: In 2012, DLS conducted a sunset review of the Division of Labor and Industry. The review focused in large part on the enforcement of labor laws in the State. Several recommendations were made, many related to the classification of workers. **DLS recommends that the department comment on the findings in the sunset review and any subsequent steps it has taken to address those findings.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

Ten-year Agreement Reached within Thoroughbred Racing Industry: After many years of disagreements on revenue sharing, number of racing days, and other issues, the Maryland Jockey Club, the Maryland Thoroughbred Horsemen's Association, and the Maryland Horse Breeders Association reached a 10-year agreement in December 2012 that will guarantee the continuation of racing at the thoroughbred tracks.

P00C
Business Regulation
Department of Labor, Licensing, and Regulation

Operating Budget Analysis

Program Description

The Department of Labor, Licensing, and Regulation (DLLR) includes many of the State's agencies and boards responsible for licensing and regulating various businesses, professions, and trades. The department also administers a variety of federally funded employment service programs. This analysis focuses on the department's business regulation divisions.

- **The Division of Labor and Industry** is responsible for safety inspections of boilers, elevators, amusement rides, and railroads. It also enforces certain protective labor laws and administers the Maryland Occupational Safety and Health Act. Its mission is to protect the health, safety, and employment rights of Maryland citizens.
- **The Division of Occupational and Professional Licensing** licenses, regulates, and monitors 24 different professions and trades through boards and commissions. The division has 13 boards supported by the general fund and 11 boards supported by special funds. Its mission is to ensure that practitioners of occupations and professions regulated by the agency are qualified, competent, and compliant with State laws, regulations, and standards so that the provision of their commercial services is conducive to the health, safety, and welfare of Maryland consumers.
- **The Division of Racing** regulates thoroughbred and harness racing at tracks across the State. Responsibilities include assigning racing days, regulating wagering on races, collecting the wagering tax, licensing all racetrack employees, and operating a testing laboratory. The division also pays the salaries and stipends of all racetrack employees who are appointed by the State Racing Commission.
- **The Division of Financial Regulation** regulates commercial banks, trust companies, credit unions, mortgage lenders and originators, collection agencies, and consumer loan companies. Its mission is to protect financial services consumers, ensure appropriate licensing, and maintain safety and soundness in Maryland's financial services industry.

A separate analysis discusses the department's Division of Workforce Development and Adult Learning; Division of Unemployment Insurance; and administrative units.

Performance Analysis: Managing for Results

1. Mixed Efficiency Trends Under Division of Financial Regulation

The Division of Financial Regulation strives to protect financial services customers, ensure appropriate licensing, and maintain soundness in the State's financial services industry. The recent mortgage crisis has changed the banking regulatory landscape. As such, the division's responsibilities have grown, necessitating increased performance monitoring. Beginning in fiscal 2007, the department began to distinguish between consumer complaints regarding mortgage issues and non-mortgage issues.

The division has a goal to reach disposition on 85% of mortgage complaints within 90 days and 85% of non-mortgage complaints within 60 days. This goal was recently adjusted downward from a 100% goal. Non-mortgage complaints involve issues related to banks, credit unions, debt management services, collection agencies, and other entities that are regulated by the division.

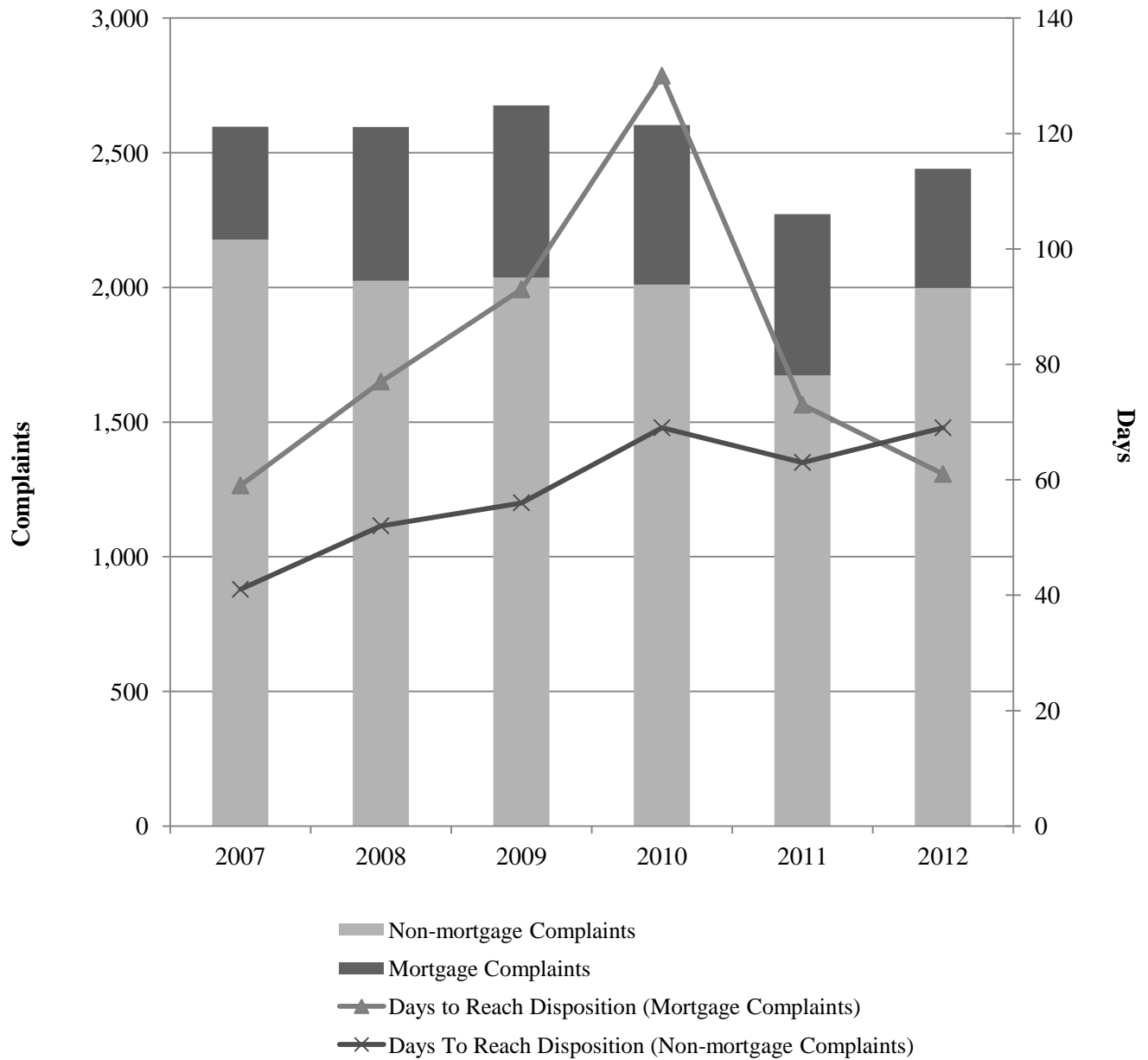
Exhibit 1 shows the number of both types of complaints and the days to resolve complaints. The department has dedicated much time, effort, and focus in addressing the spike in foreclosures and various mortgage complaints. Based on the performance data, the efficiency in which other complaints are handled may have declined. There was a spike in the number of days to resolve mortgage complaints in fiscal 2010. However, the department advises that it was able to significantly reduce its complaint backlog in that year. Since then, mortgage complaint efficiency has increased. Conversely, since 2007, complaint resolutions for non-mortgage complaints have taken much longer. Neither measure meets the goal of disposition on 85% of mortgage complaints within 90 days and 85% of non-mortgage complaints within 60 days, although mortgage complaint resolution is very close.

2. The Effect of Mediation on Complaint Resolution

Like the Division of Financial Regulation, the Division of Occupational and Professional Licensing handles calls and complaints from consumers against those licensed by the department or against those individuals or companies that should be licensed by the department. The division's goal is to protect the public's health and safety by the efficient review, resolution, and adjudication of consumer complaints. It measures attainment of this goal by the percentage of complaints resolved within 180 days. **Exhibit 2** shows that after a small improvement in fiscal 2011, complaint resolution fails to show further improvement in fiscal 2012.

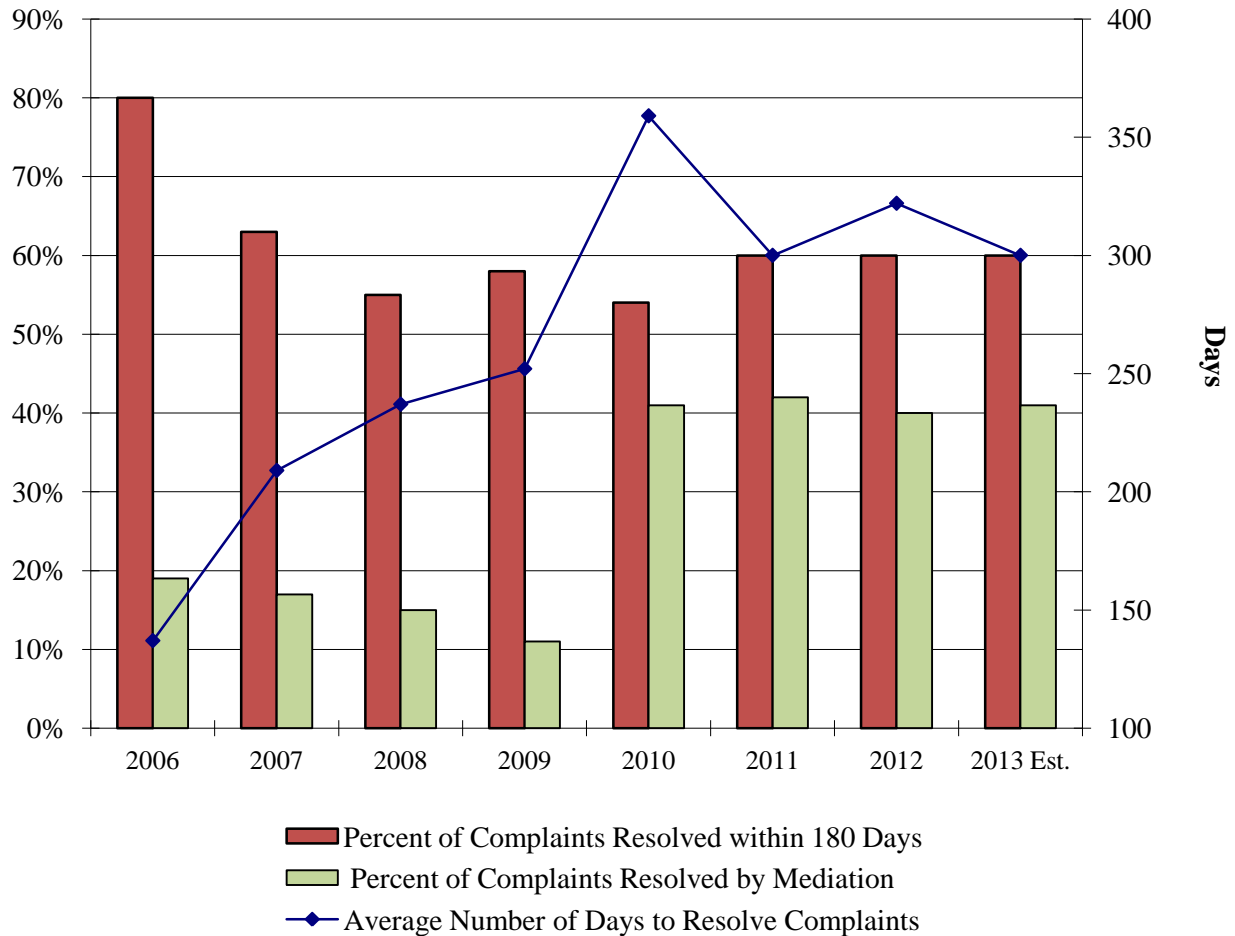
The vast majority of complaints involve the Home Improvement Commission. The commission has made an effort to significantly increase the number of complaints that are resolved using alternative dispute resolution (ADR) in order to avoid a lengthy hearing process. The commission almost tripled the percent of complaints resolved by ADR in fiscal 2010. The use of ADR appeared to stem the trend of increasing inefficiency in fiscal 2011. However, that impact seems to have reached a plateau in fiscal 2012.

Exhibit 1
Division of Financial Regulation
Complaint Resolution
Fiscal 2007-2012



Source: Governor's Budget Books, Fiscal 2014

Exhibit 2
Division of Occupational and Professional Licensing
Complaint Resolution
Fiscal 2006-2013



Source: Governor's Budget Books, Fiscal 2014

Fiscal 2013 Actions

Section 25 of Chapter 1 of the First Special Session of 2012 (the Budget Reconciliation and Financing Act of 2012) required the Governor to abolish at least 100 vacant positions as of January 1, 2013, saving at least \$6 million in general funds. The business regulation units' share of the reduction was 1.6 positions and \$91,764 in savings.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2014 allowance increases by \$10.2 million over the fiscal 2013 working appropriation. The vast majority of this increase relates to the increase in video lottery terminal (VLT) revenues dedicated to horse racing purse enhancements and VLT local impact aid.

Exhibit 3 Proposed Budget DLLR – Business Regulation (\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
2013 Working Appropriation	\$8,944	\$104,003	\$5,010	\$1,395	\$119,352
2014 Allowance	<u>8,805</u>	<u>114,299</u>	<u>5,016</u>	<u>1,500</u>	<u>129,620</u>
Amount Change	-\$139	\$10,296	\$6	\$105	\$10,268
Percent Change	-1.5%	9.9%	0.1%	7.5%	8.6%
Contingent Reduction	-\$11	-\$27	-\$6	\$0	-\$44
Adjusted Change	-\$149	\$10,270	-\$1	\$105	\$10,225
Adjusted Percent Change	-1.7%	9.9%	-0.0%	7.5%	8.6%

Where It Goes:

Personnel Expenses

Annualized general salary increase	\$229
Increments and other compensation	214
Employee and retiree health insurance	396
Retirement system	554
Workers' compensation premium assessment.....	53
Turnover adjustments	-126
Other fringe benefit adjustments	21

Other Changes

Departmentwide Changes

Contractual staff under financial regulation	65
Increase in licensing overhead costs.....	126
Increase in rent.....	135
Decline in costs to participate in national mortgage settlement committee.....	-225
Decline in equipment.....	-102

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Where It Goes:

Racing Commission

Contractual Staff.....	151
VLT funds for purse enhancements.....	5,557
VLT funds for racetrack facility redevelopment	-2,669
VLT funds for local impact aid	4,521
Horse racing impact aid	1,252
Other changes	116
Total	\$10,268

DLLR: Department of Labor, Licensing, and Regulation

VLT: video lottery terminal

Note: Numbers may not sum to total due to rounding.

Video Lottery Terminal Special Funds

The statute that authorizes the State's gaming program also specifies use of the VLT revenue to the benefit of the horse racing industry and the jurisdictions that contain gaming facilities. The Division of Racing's fiscal 2014 allowance includes:

- \$42.3 million – 7.0% of VLT revenues to a purse dedication account to enhance horse racing purses and breed funds. Of this amount, 80.0% is allocated to the thoroughbred industry and 20.0% to the standardbred industry.
- \$10.5 million – 1.75% of VLT revenues to a racetrack renewal account for racetrack facility capital construction and improvements. To the extent that racetracks apply for the funds, 80.0% is allocated to Pimlico Race Course, Laurel Park, and the Racecourse at Timonium; and 20.0% is allocated to Rosecroft Raceway and Ocean Downs Race Course. Chapter 1 of the Second Special Session of 2012 lowers the amount of revenue dedicated to the account from 2.5 to 1.75% effective October 1, 2012. The legislation also lowered the cap on the account from \$40 million to \$20 million. Any unencumbered funds will be allocated to the Education Trust Fund.
- \$33.4 million – 5.5% of VLT revenues for local impact grants. After a VLT license is issued to a facility in Baltimore City, 100.0% of the local impact grants that are generated from revenues from facilities in Allegany, Cecil, and Worcester counties must be distributed to those jurisdictions. Otherwise, 82.0% is allocated to local jurisdictions with VLT facilities based on each jurisdiction's percent of overall gross revenues. The remaining 18.0% is allocated to Baltimore City on behalf of the Pimlico Community Development Authority (of this amount, \$1 million is re-allocated to Prince George's County for capital projects around Rosecroft Raceway).

There is some early evidence that the VLT special funds are beginning to benefit the horse racing industry. In particular, the purse dedication account is resulting in larger fields of horses and larger handles. For example, according to the Maryland Racing Commission, the average number of thoroughbred horses that race per day increased from 69.9 in calendar 2011 to 73.7 in calendar 2012, a 5.4% increase. Similarly, the total number of thoroughbred races that were run increased 3.7% from calendar 2011 to 2012. Also, the number of stakes races increased by 9.7% over the last year. The purpose in increasing the amounts available for purses is to attract a larger field of horses that will allow a greater number of races, which will result in a greater public interest in the sport. Based on one year of data, the purse enhancements seem to be effective.

Horse Racing Special Funds

Horse racing impact aid consists of grants to counties and municipalities that contain or are located close to thoroughbred tracks. The aid has been in place since 1975 and is derived, in part, from the collection of the tax on horse race wagering. The amounts granted to each jurisdiction are mandated by statute and are largely based on the number of racing days held each year. Due to a significant decline in wagering, the revenues have been in considerable decline over the last few years. In fact, the revenues have been insufficient to fulfill the expected allocation to each jurisdiction and to the other mandated uses.

Exhibit 4 demonstrates the extent of the funding problem. The exhibit shows each of the mandated uses of the special horse racing fund. The mandates total over \$3.5 million; however, expected revenues in the fund total approximately \$2.8 million. It should be noted that the agricultural boards and fair funds are budgeted under the Maryland Department of Agriculture.

The fiscal 2014 allowance includes \$1.3 million for the local impact aid. This amount must be included in the budget, per mandate, despite the expected revenue shortfall. Recognizing the shortfall, the funding was eliminated from the fiscal 2013 budget. This year, the Budget Reconciliation and Financing Act of 2013 proposes an alternative solution. The bill includes a provision that would allow the local impact aid to be proportionately reduced by the Comptroller of Maryland/Racing Commission if the revenues prove insufficient.

Other Changes

Absent the changes related to horse racing and VLT revenues, the allowance for the business regulation units of the department is fairly flat. Funds for contractual staff increase by about \$216,000. New contractual full-time equivalents will be used to supplement budget and banking examiner staff under the Division of Financial Regulation and to add racetrack staff because of additional racing days at Ocean Downs Race Course.

Rent at the department's Eutaw Street building is expected to increase, as well as overhead costs that are shared by all the occupational and professional boards. These increases are offset by declines in equipment and to one-time expenses in fiscal 2013 related to the department's participation in the national mortgage settlement committee. This last topic is addressed in further detail under the Issues section of this analysis.

Exhibit 4
Horse Racing Special Fund
Mandated Uses
Fiscal 2014

	<u>Mandate</u>	<u>BRFA of 2013</u>
Agriculture and Fairs		
Great Pocomoke Fair	\$20,000	\$20,000
Great Frederick Fair	40,000	40,000
Agriculture Education Foundation	75,000	75,000
Agriculture Fair Board	825,000	825,000
Maryland State Fair and Agriculture Society	500,000	500,000
Maryland Million	500,000	500,000
Standardbred Race Fund Sire Stakes	350,000	350,000
Subtotal	\$2,310,000	\$2,310,000
Impact Aid		
Anne Arundel County	\$339,000	\$152,371
Baltimore County	50,000	22,474
Howard County	84,750	38,093
Prince George's County	100,000	44,947
Baltimore City	609,000	273,729
Bowie	18,200	8,180
Laurel	50,850	22,856
Subtotal	\$1,251,800	\$562,650
Total	\$3,561,800	\$2,872,650
Estimated Revenues Fiscal 2014	\$2,872,660	
Shortfall	-\$689,140	

BRFA: Budget Reconciliation and Financing Act of 2013

Source: Governor's Budget Book, Fiscal 2014; Racing Commission

Issues

1. National Mortgage Settlement; Fraud Investigations

In February 2012, a significant national settlement was announced between 49 states and the District of Columbia and the nation's five largest mortgage servicers: Bank of America, JP Morgan Chase, Wells Fargo, Citigroup, and Ally Bank (formerly GMAC). The settlement was based on mortgage loan servicing and foreclosure practices utilized by those mortgage servicers.

The settlement included the establishment of new servicing standards to prevent a repeat of the foreclosure practices that had prompted the investigation into servicing practices. Nationwide, the settlement provided approximately \$25 billion in monetary relief. The projected benefit to Marylanders from the settlement is approximately \$957.0 million, which includes homeowner relief programs (\$808.0 million), direct payments to foreclosed borrowers (\$24.0 million), refinancing options for homeowners (\$64.0 million), and payments for housing counseling and other State-level foreclosure prevention and housing programs (\$60.0 million). The last category is the main payment coming directly to the State, with a final number of \$59.7 million, of which 10%, or \$5.9 million, is a civil penalty that goes to the general fund. The remaining balance of \$53.7 million is required to be used for housing and foreclosure-relief purposes and for related investigations and enforcement activities.

During the summer, a Mortgage Settlement Funds Workgroup was appointed by the Office of the Attorney General (OAG) to make recommendations for the use of these funds. The workgroup's recommendations were modified slightly by OAG, and the final allocation was determined as follows:

- \$14,000,000 for a neighborhood stabilization fund allocated through a request for proposal (RFP) process;
- \$10,000,000 for the Baltimore City local government housing program;
- \$10,000,000 for the Prince George's County local government housing program;
- \$8,600,000 for housing counselors allocated through an RFP process;
- \$6,227,863 for legal assistance organizations allocated through an RFP process;
- \$2,761,860 for new temporary enforcement personnel in OAG; and
- \$2,138,000 for financial fraud prevention positions at DLLR.

Department's Use of Settlement Funds

The fiscal 2014 allowance reflects one portion of the department's allocation from the settlement (\$828,009). Funds are allocated across three years – fiscal 2013 through 2015. A budget amendment was enacted to bring funds into the current year appropriation. Funds will be used for positions that are dedicated to mortgage and other financial fraud prevention and investigative activities.

In fiscal 2012, the U.S. Department of Justice provided federal funds to the Division of Financial Regulation for its Mortgage Fraud Enforcement Initiative. The program was designed to identify and investigate mortgage fraud and to improve enforcement cooperation with agencies at the federal, state, and local levels. This funding expired in fiscal 2014. The settlement funds will be used, in part, to continue the staffing that was added as a result of the federal funds (two investigators and one paralegal).

Additionally, the department is awaiting an exemption to the hiring freeze to fill other vacant positions to add to the fraud effort. The remainder of the settlement funds will be used to fund additional investigators, an attorney, and a complaints administrator. There will be no further funds from the settlement beyond fiscal 2015. If the department fails to use the entire allocation by the end of fiscal 2015, it may ask to use the remainder of the funds in fiscal 2016. Once the funds are expended, the department will need to seek other grant funds, receive a general funds infusion, or reduce its financial fraud activities.

The Department of Legislative Services (DLS) recommends that the department brief the budget committees on the National Mortgage Settlement, especially the department's role in the process and how it will use the additional funds. Further, the department should also discuss how it will address the termination of funds after fiscal 2015.

2. Department Responds to Sunset Review of Division of Labor and Industry

In October 2012, DLS issued its evaluation of the Division of Labor and Industry (DLI) and associated boards and commissions as required by the Maryland Program Evaluation Act (sunset review).

DLS has determined that most of DLI's activities represent core functions of State government, namely protecting the health and safety of the workforce and enforcing employment standards and compensation requirements. Therefore, DLS recommended that DLI should not be subject to periodic termination under the Act because termination of these functions jeopardizes public health and safety. However, DLI should remain subject to periodic evaluation under the Act. DLS further recommended that the associated boards and commissions, specifically the Maryland Apprenticeship and Training Council, the Maryland Occupational Safety and Health Advisory Board, the Amusement Ride Safety Advisory Board, and the Board of Boiler Rules should remain subject to termination as they more closely resemble most other entities subject to termination under the Act in both structure and responsibilities.

Generally, the sunset review also recommended that the department (1) standardize the division's statutory authority to enforce State employment laws; and (2) improve the tracking and reporting of its enforcement activity.

Recommendations Related to the Workplace Classification Protection Unit

Many of the specific recommendations related to the department's Workplace Classification Protection Unit (formerly the Workplace Fraud Unit). The unit was created in response to Chapter 188 of 2009, which established that an employer misclassifies an individual when an employer-employee relationship exists but the employer designates the individual as an independent contractor. Individuals misclassified as independent contractors may not be subject to labor and wage protections, may not receive workers' compensation or unemployment insurance benefits, and may not pay an appropriate level of taxes.

Prior to the sunset evaluation, the unit made several changes in response to legislative and industry concerns regarding the unit's enforcement policy. The sunset evaluation acknowledged the benefits of the changes but noted that additional reforms were recommended. For example, the unit did not have an adequate tracking system. Staffing was also cited in the evaluation as a potential problem, specifically the number of investigators and the lack of bilingual investigators. Further, the evaluation notes the limitation of the unit to issue certain penalties.

Agency Response

In the written response to the sunset review's recommendations concerning the Workplace Classification Protection Unit, the department generally concurred with the findings. However, lack of time and funding was an impediment to implementing the recommendations.

The department has begun compiling the information that would be required to establish a new tracking system but has no funds to develop such a program. Regarding staffing levels, the department advises that the incidence of worker misclassification will decline once the unit's reputation is known in the relevant industries. It plans to develop bilingual brochures and will recruit investigators that have language skills. It does not, however, indicate plans to increase its staff.

Finally, it should be noted that uncodified language in Chapter 188 of 2009 requires the department to report on the status of the Workplace Classification Protection Unit by December 31, 2014.

DLS recommends that the department comment on the findings in the sunset review and any subsequent steps it has taken to address those findings.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Ten-year Agreement Reached within Thoroughbred Racing Industry

After many years of disagreements on revenue sharing, number of racing days, and other issues, the Maryland Jockey Club, the Maryland Thoroughbred Horsemen's Association, and the Maryland Horse Breeders Association reached a 10-year agreement in December 2012 that will guarantee the continuation of racing at the thoroughbred tracks.

The agreement comes on the heels of a temporary solution struck in 2010 that ensured three years of continued racing due to an operating subsidy provided to the racetracks. The subsidy was provided out of the VLT proceeds dedicated to racetrack capital improvements.

Now that purse enhancements and racetrack renewal funds are growing as a result of the VLT facilities around the State, the industry has become secure enough to commit to the 10-year agreement. The agreement provides that the Maryland Jockey Club, which operates the primary thoroughbred tracks in the State, will agree to a guaranteed 146 days of racing in 2013 and at least 100 days of racing in each subsequent year. The agreement allows the Maryland Thoroughbred Horsemen's Association to buy additional days of racing each year. Additionally, the Jockey Club has also agreed to maintain a minimum of 1,900 stalls year-round for racing, training, and stabling of horses.

The agreement also addressed revenue sharing. The parties agreed to a distribution of the revenues from the pari-mutuel handle on site and at off-track betting facilities. Also, the parties agreed to a two-year agreement allowing for cross-breed simulcasts between the thoroughbred tracks and Rosecroft Raceway harness track.

The uncertainty that was eliminated, thanks to the 10-year agreement, has allowed the tracks to begin to plan for capital improvements. To that end, the owners of the State's thoroughbred tracks and the owner of Ocean Downs harness track have submitted preliminary capital plans to the Racing Commission. These submissions will allow the tracks to have access to racetrack redevelopment funds that are derived from VLT revenues.

Current and Prior Year Budgets

Current and Prior Year Budgets **Department of Labor, Licensing, and Regulation – Business Regulation** (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2012					
Legislative Appropriation	\$8,065	\$84,163	\$4,536	\$1,477	\$98,242
Deficiency Appropriation	251	0	0	0	251
Budget Amendments	240	622	944	0	1,806
Reversions and Cancellations	-281	-33,888	-432	-110	-34,711
Actual Expenditures	\$8,276	\$50,897	\$5,048	\$1,367	\$65,588
Fiscal 2013					
Legislative Appropriation	\$9,104	\$102,979	\$4,978	\$1,395	\$118,456
Budget Amendments	-160	1,023	32	0	896
Working Appropriation	\$8,944	\$104,003	\$5,010	\$1,395	\$119,352

Note: Numbers may not sum to total due to rounding.

Fiscal 2012

The original fiscal 2012 appropriation was increased by a total of \$252,028 in general, special, and federal funds. This is due to the one-time \$750 State employee bonus that was distributed to each agency by budget amendment during the fiscal year. Also, a deficiency appropriation added \$250,805 in general funds to the fiscal 2012 appropriation to account for expenses related to the re-opening of the Rosecroft Raceway.

Other budget amendments further added to the original 2012 appropriation. One amendment appropriated \$644,000 in special funds to the State Board of Accountancy within the Division of Occupational and Professional Licensing. The funds were used to facilitate a greater than expected number of licensing exams.

Additionally, the U.S. Department of Justice provided \$390,668 in federal funds to the Division of Financial Regulation for its Mortgage Fraud Enforcement Initiative. The program is designed to identify and investigate mortgage fraud and to improve enforcement cooperation with agencies at the federal, state, and local levels. Also, another budget amendment provided \$20,848 in federal funds to the department's Apprenticeship and Training program. Funds represent an extension of the Registered Apprenticeship Partners Information Data System grant from the U.S. Department of Labor. Funds are used to measure the capabilities of the new, federally funded tracking system of the State's apprenticeship programs. Finally, another amendment provided \$488,034 in federal funds to the Maryland Occupational Safety and Health Administration. The existing appropriation underestimated the amount of funds available from the U.S. Occupational Safety and Health Administration to ensure the safe working environment of Maryland workers.

Despite these additions to the original fiscal 2012 appropriation, actual expenditures were much less than expected. Approximately \$281,000 in general funds was reverted at the end of the year; the majority of that was attributable to the Division of Occupational and Professional Licensing. Specifically, the reversions were due to personnel vacancies and a delay in the implementation of the locksmith licensing program.

Actual special fund expenditures were significantly less than what was appropriated. The vast majority relates to the programs that were funded with VLT revenues. Such revenues were significantly less than what was projected, resulting in fewer funds for local impact aid, horse racing purse enhancements, and racetrack redevelopment. The remaining special fund cancellation (\$925,910) was due to lower personnel, examination, and other licensing costs under the Division of Occupational and Professional Licensing.

Finally, federal funds declined slightly due to lower than expected expenditures under the Division of Financial Regulation and the Apprenticeship and Training Program. Approximately \$110,000 in reimbursable funds was canceled due to personnel vacancies under the Division of Occupation and Professional Licensing.

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Other changes to the original appropriation resulted from budget amendments that realigned funds, in part, between the business regulation components and the workforce development divisions of the department, which are discussed in another analysis.

Fiscal 2013

The cost-of-living salary adjustment increased the original fiscal 2013 appropriation by \$196,395 across all funds. Special funds increased within the Division of Financial Regulation in order to develop a foreclosed property registry (\$299,150) and to pursue fraud investigations as determined by the national mortgage settlement (\$560,305). The remaining changes from the original appropriation in fiscal 2013 are due to the realignment of funds between the business regulation components and the workforce development divisions of the department, which are discussed in another analysis.

Audit Findings

Audit Period for Last Audit:	October 14, 2008 – May 30, 2011
Issue Date:	February 2012
Number of Findings:	3
Number of Repeat Findings:	1
% of Repeat Findings:	33%
Rating: (if applicable)	n/a

These audit findings relate only to the DLI.

Finding 1: **Safety inspections for boilers, pressure vessels, and elevators were not performed timely in accordance with State law, although some improvement in reducing the backlog has been made to address this longstanding issue.**

Finding 2: DLI had not established comprehensive procedures for tracking the submission and review of certified payrolls received from certain contractors to monitor compliance with the State’s prevailing wage laws.

Finding 3: Cash receipts were not always deposited and verified in a timely manner.

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
DLLR – Business Regulation**

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	356.70	356.10	356.10	0.00	0%
02 Contractual	34.88	41.31	46.10	4.79	11.6%
Total Positions	391.58	397.41	402.20	4.79	1.2%
Objects					
01 Salaries and Wages	\$ 25,630,539	\$ 27,785,334	\$ 29,126,110	\$ 1,340,776	4.8%
02 Technical and Special Fees	1,604,855	1,868,930	2,084,588	215,658	11.5%
03 Communication	680,000	784,008	800,627	16,619	2.1%
04 Travel	981,343	991,898	991,731	-167	0%
06 Fuel and Utilities	3,413	13,272	3,295	-9,977	-75.2%
07 Motor Vehicles	254,736	280,973	314,089	33,116	11.8%
08 Contractual Services	5,879,415	6,033,589	6,037,993	4,404	0.1%
09 Supplies and Materials	556,558	449,346	467,159	17,813	4.0%
10 Equipment – Replacement	297,077	160,274	119,150	-41,124	-25.7%
11 Equipment – Additional	61,636	99,033	37,609	-61,424	-62.0%
12 Grants, Subsidies, and Contributions	28,391,440	79,683,495	88,343,901	8,660,406	10.9%
13 Fixed Charges	1,246,415	1,201,583	1,293,792	92,209	7.7%
Total Objects	\$ 65,587,427	\$ 119,351,735	\$ 129,620,044	\$ 10,268,309	8.6%
Funds					
01 General Fund	\$ 8,275,604	\$ 8,943,521	\$ 8,804,987	-\$ 138,534	-1.5%
03 Special Fund	50,896,788	104,002,893	114,299,220	10,296,327	9.9%
05 Federal Fund	5,048,282	5,010,278	5,015,787	5,509	0.1%
09 Reimbursable Fund	1,366,753	1,395,043	1,500,050	105,007	7.5%
Total Funds	\$ 65,587,427	\$ 119,351,735	\$ 129,620,044	\$ 10,268,309	8.6%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

Fiscal Summary
DLLR – Business Regulation

<u>Program/Unit</u>	<u>FY 12 Actual</u>	<u>FY 13 Wrk Approp</u>	<u>FY 14 Allowance</u>	<u>Change</u>	<u>FY 13 - FY 14 % Change</u>
01 Division of Financial Regulation	\$ 8,508,171	\$ 9,655,212	\$ 9,833,920	\$ 178,708	1.9%
01 Division of Labor And Industry	16,302,866	17,713,277	18,606,313	893,036	5.0%
01 Division of Racing	30,775,850	81,818,696	90,707,411	8,888,715	10.9%
01 Division of Occupational and Professional Licensing	10,000,540	10,164,550	10,472,400	307,850	3.0%
Total Expenditures	\$ 65,587,427	\$ 119,351,735	\$ 129,620,044	\$ 10,268,309	8.6%
General Fund	\$ 8,275,604	\$ 8,943,521	\$ 8,804,987	-\$ 138,534	-1.5%
Special Fund	50,896,788	104,002,893	114,299,220	10,296,327	9.9%
Federal Fund	5,048,282	5,010,278	5,015,787	5,509	0.1%
Total Appropriations	\$ 64,220,674	\$ 117,956,692	\$ 128,119,994	\$ 10,163,302	8.6%
Reimbursable Fund	\$ 1,366,753	\$ 1,395,043	\$ 1,500,050	\$ 105,007	7.5%
Total Funds	\$ 65,587,427	\$ 119,351,735	\$ 129,620,044	\$ 10,268,309	8.6%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

P00C – DLLR – Business Regulation

Appendix 4